

Report of the Board of Directors

First quarter 2016

(Consolidated figures. Figures in parentheses refer to the same period of 2015 unless otherwise stated)

- Pre-tax profit: NOK 383m (567m)
- Net profit first quarter: NOK 311m (441m)
- Return on equity: 8.9 per cent (14.1 per cent)
- Growth in lending 5.4 per cent (10.0 per cent) in past 12 months
- Growth in deposits 5.4 per cent (10.9 per cent) in past 12 months
- CET1 capital ratio: 13.6 per cent (12.3 per cent)
- Earnings per equity certificate (EC): NOK 1.49 (2.18)
- Book value per EC: NOK 67.37 (61.95)

Good profit, but increased collectively assessed write-downs

Main points:

- Collectively assessed impairment write-downs bring a substantial profit reduction compared with the first quarter of 2015
- Good underlying operations
- High return on financial assets
- Continued low individually assessed impairment write-downs. Collectively assessed write-downs up NOK 150m
- Good financial position
- Good growth in lending and deposits

In the first quarter of 2016 SpareBank 1 SMN achieved a post-tax profit of NOK 311m (441m) and a return on equity of 8.9 per cent (14.1 per cent). Net profit was NOK 383m (567m).

Operating incomes in the first quarter came to NOK 870m, an increase of NOK 26m compared with the same period of 2015. This is largely explained by the consolidation of SpareBank 1 Markets as a subsidiary of SpareBank 1 SMN with effect from the second quarter of 2015.

Return on financial assets was NOK 172m (198m), of which income from owner interests in joint ventures accounted for NOK 119m (129m).

Operating expenses amounted to NOK 489m in the first quarter of 2016 (454m), a growth of NOK 35m. The increase is explained by the consolidation of SpareBank 1 Markets as a subsidiary of SpareBank 1 SMN with effect from the second quarter of 2015.

Loan losses totalled NOK 170m (22m) in the first quarter, of which NOK 150m (0m) is accounted for by an increase in collectively assessed write-downs related to the bank's offshore exposure.

At end-March 2016 12-month lending growth was 5.4 per cent (10.0 per cent) and deposit growth was 5.4 per cent (10.9 per cent).

SpareBank 1 SMN is planning for a CET1 ratio of 14.5 per cent by 31 December 2016. The capital plan is further described in the section on financial strength. At end-March 2016 SpareBank 1 SMN's CET1 ratio was 13.6 per cent (12.3 per cent).

In the first quarter earnings per EC were NOK 1.49 (2.18). Book value per EC was NOK 67.37 (61.95). The market price at the same point was NOK 52.75 (59.50). Dividend of NOK 2.25 per EC was paid in 2016 for the year 2015.

Net interest income

Net interest income came to NOK 469m (467m) in the first quarter 2016. Net interest income has been relatively stable per quarter in 2015 and 2016, but is marked by large gross movements:

- Increased lending to and deposits from retail and corporate clients alike
- Increased margins on deposits
- Reduced margins on home mortgage loans

Net interest income on loans sold to SpareBank 1 Boligkreditt (residential mortgage company) and SpareBank 1 Næringskreditt (commercial mortgage company) is recognised as commission income. Commission on loans sold to these two companies in the first quarter of 2016 totalled NOK 74m (91m), reflecting reduced margins on home mortgage loans.

In the course of 2014 and in 2015 five general interest rate reductions were carried out on loans to retail customers to adjust home mortgage rates to a falling interest rate level. Deposit rates to retail and corporate customers were also reduced. A further reduction of up to 15 basis points in home mortgage rates and a corresponding change in deposit rates has been decided, effective as from June 2016. Parts of the portfolio of loans to corporates are repriced to better reflect different levels of credit risk.

Commission and other operating income

Net commission and other operating income totalled NOK 401m (377m) in the first quarter of 2016. Income from SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt was down NOK 18m due to lower margins on loans sold to SpareBank 1 Boligkreditt. The overall increase in other commission income is in all essentials ascribable to the fact that SpareBank 1 Markets only became a subsidiary of SpareBank 1 SMN with effect from the second quarter of 2015. A number of the other income types also show a positive trend.

Commission income (NOKm)	1Q 16	1Q 15	Change
Payment transfers	47	47	0
Creditcard	14	13	1
Saving products	13	11	2
Insurance	39	37	3
Guarantee commission	21	16	4
Real estate agency	80	83	-3
Accountancy services	50	53	-3
Markets	39	2	37
Active management	6	4	1
Rent	8	10	-2
Other commissions	9	8	1
Commissions ex SB1 Boligkreditt and SB1 Næringskreditt	327	286	41
Commissions SB1 Boligkreditt	71	89	-18
Commissions SB1 Næringskreditt	2	2	0
Total commissions	401	377	24

Good return on financial investments

Overall return on financial investments (excluding the bank's share of the profit/loss of associates and joint ventures) was NOK 53m (69m). Overall return breaks down as follows:

- Return on the group's equity portfolios totalled NOK 3m (10m)
- Capital gains on bonds and derivatives came to NOK 25m (11m).
- Income on forex and fixed income transactions was NOK 26m (48m)

Capital gains/dividends, shares (NOKm)	1Q 16	1Q 15	Change
Capital gains/dividends, shares	3	10	-7
Bonds and derivatives	25	11	13
Income on forex and fixed income	26	48	-22
Net return on financial investments	53	69	-16
SpareBank 1 Gruppen	61	59	2
SpareBank 1 Boligkreditt	24	41	-17
SpareBank 1 Næringskreditt	8	8	0
SpareBank 1 Kredittkort	6	4	2
BN Bank	20	18	2
SpareBank 1 Mobilbetaling (mCASH)	-6	0	-6
Companies owned by SpareBank 1 SMN Invest	6	0	6
Other companies*	0	-2	2
Income from investment in related companies	119	128	-9
Total	172	197	-25

*Included investment held for sale

SpareBank 1 Gruppen

SpareBank 1 Gruppen's post-tax profit for the first quarter of 2016 was NOK 284m (303m). The main contributor to the profit is the insurance arm, SpareBank 1 Forsikring.

SpareBank 1 SMN's share of the profit was NOK 61m (59m), including a variance of NOK 5.6m between the preliminary and final accounts for 2015.

SpareBank 1 Boligkreditt

SpareBank 1 Boligkreditt was established by the banks participating in the SpareBank 1 Alliance to benefit from the market for covered bonds. The banks sell their best secured home mortgage loans to the company, affording them reduced funding costs. As of 31 March 2016 the bank had sold loans worth NOK 33bn (29bn) to SpareBank 1 Boligkreditt, corresponding to 40 per cent (39 per cent) of overall loans to retail borrowers.

The bank's stake in SpareBank 1 Boligkreditt is 19.0 per cent, and the bank's share of that company's profit in the first quarter of 2016 was NOK 24m (41m). Like the result for the first quarter of 2015, the result for the first quarter of 2016 is affected by unrealised gains on the company's basis swaps.

SpareBank 1 Næringskreditt

SpareBank 1 Næringskreditt was established along the same lines, and with the same administration, as SpareBank 1 Boligkreditt. As of 31 March 2016, loans worth NOK 1.5bn (1.5bn) had been sold to SpareBank 1 Næringskreditt.

SpareBank 1 SMN's stake in the company is 33.6 per cent, and the bank's share of the company's profit in the first quarter of 2016 was NOK 8m (8m). The holding reflects the bank's relative share of sold loans to commercial property and the bank's stake in BN Bank. Of aggregate loans at SpareBank 1 Næringskreditt, 78 per cent have been sold from BN Bank.

SpareBank 1 Kredittkort

Profit for the first quarter of 2016 was NOK 34m (21m). SpareBank 1 Kredittkort is owned by the SpareBank 1 banks, and SpareBank 1 SMN has a stake of 18.4 per cent. SpareBank 1 SMN's share of the first quarter' profit was NOK 6m (4m) and its share of the portfolio is NOK 815m (742m).

BN Bank

SpareBank 1 SMN owns a 33.0 per cent stake in BN Bank as of 31 March 2016.

SpareBank 1 SMN's share of the profit of BN Bank in the first quarter of 2016 was NOK 20m (18m), yielding a return on equity of about 6.8 per cent (6.0 per cent).

The board of directors of BN Bank decided in 2015 to cultivate the bank as a retail bank and to wind down the corporate business which consists of lending to low-risk commercial property. The backdrop to the decision is capital adequacy rules specific to Norway under which return on equity on this activity is low. This is because BN Bank competed in the low-risk segment with foreign actors who set their prices under a different, more liberal, regulatory regime and capital requirements.

BN Bank's new strategy is to cultivate the retail banking business and to become a bank for customers who prefer a self-service concept and hence favourable borrowing rates over time.

BN Bank will remain a part of the SpareBank 1 Alliance. SpareBank 1 SMN will maintain its owner stake in BN Bank and will play its part in ensuring that the business change is carried through in a manner that safeguards creditors' interests.

The process of winding down the corporate banking business will be carried out in a controlled manner over time. By the end of the first quarter of 2016 the corporate portfolio had been reduced by NOK 8bn or 25 per cent since 30 June 2015. The board of directors of BN Bank aims to wind down 50 per cent of the corporate portfolio by 31 December 2016. Wind-down of the remaining corporate portfolio will strengthen CET1 capital adequacy of SpareBank 1 SMN by 0.9 percentage point.

SpareBank 1 Mobilbetaling (mCASH)

In the fourth quarter of 2015 the SpareBank 1 banks acquired the Norwegian arm of mCASH and established a mobile payments company, SpareBank 1 Mobilbetaling. The intention is to strengthen the bank's position on new mobile interfaces such as friend-to-friend payments and mobile payments in stores. Mid-February saw the start of nationwide marketing of mCash through TV/digital advertising, and a substantial focus on events and on clubs and associations. Nationally more than 1,500 clubs and associations have put mCash to use as a payments solution. mCash also offers solutions for internet commerce, stores and friend-to-friend payments.

The financial result is a consequence of start-up costs and marketing of mCash. The company is owned by the SpareBank 1 banks and SpareBank 1 SMN's stake is 19.7 per cent.

Operating expenses

Overall operating expenses came to NOK 489m (454m) in the first quarter of 2016. The increase of NOK 35m is ascribable to SpareBank 1 Markets' consolidation as a subsidiary as from the second quarter of 2015.

The parent bank reduced costs by NOK 17m to NOK 290m. This is also related to changes at SpareBank 1 Markets. As from the second quarter of 2015 SpareBank 1 SMN transferred its capital market activities to SpareBank 1 Markets, and the parent bank's operating expenses include NOK 14m on capital market activities at SpareBank 1 SMN. The parent bank's additional cost reduction of NOK 3m is a consequence of the bank's cost cutting programme.

Wide-ranging efficiency improvement measures have been initiated at the parent bank aimed at keeping nominal costs unchanged from 2014 to 2016. Since 31 December 2014 the number of FTEs at the parent bank has been reduced from 720 to 642, i.e. by 78.

The Group cost-income ratio was 47 per cent (44 per cent).

Low individual losses and low defaults, but increased provision for collectively assessed write-downs

Losses on loans and guarantees in the first quarter of 2016 came to NOK 170m (22m), of which NOK 150m (0m) refers to increased collectively assessed write-downs.

Net individual impairment write-downs of NOK 10m were recorded on loans to corporate clients in the first quarter of 2016, including a loss of NOK 1m at SpareBank 1 Finans Midt-Norge. A net loss of NOK 6m was recorded on the retail client portfolio in the first quarter of 2016.

Total individually assessed write-downs on loans and guarantees came to NOK 200m (161m) at the end of the first quarter of 2016, an increase of NOK 39m over the 12 months to end-March.

Total problem loans (defaulted and doubtful) came to NOK 616m (496m), or 0.48 per cent (0.40 per cent) of gross loans at end-March 2016.

Defaults in excess of 90 days totalled NOK 205m (262m), a decline of NOK 57m, measuring 0.16 per cent (0.21 per cent) of gross lending (including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt). Of total defaults, NOK 31m (61m) are loss provisioned, corresponding to 15 per cent (23 per cent).

Defaults break down to NOK 41m on corporates and NOK 164m on retail borrowers.

Other doubtful exposures totalled NOK 411m (234m), corresponding to 0.32 per cent (0.19 per cent) of gross outstanding loans. NOK 169m (100m) or 41 per cent (43 per cent) are loss provisioned.

Other doubtful exposures break down to NOK 356m on corporates and NOK 56m on retail borrowers.

Increase in collectively assessed impairment write-downs

Collective assessment of impairment write-downs is based on two factors:

- events that have affected the bank's portfolio (causing migration between risk categories)
- events that have not yet affected the portfolio since the bank's credit risk models do not capture the effects rapidly enough (e.g. macroeconomic factors).

Collectively assessed impairment write-downs has been increased by NOK 150m. This was because an increased probability of default and reduced ship values bring a greater likelihood of loss in oil-related activity due to the challenging market situation continuing in 2016. Total collectively assessed loss

write-downs are accordingly NOK 527m (295m), corresponding to 0.41 per cent (0.24 per cent) of total outstanding loans. Collectively assessed write-downs break down to NOK 96m on retail exposures and NOK 431m on corporates. Of the provision of NOK 431m on the corporate portfolio, NOK 249m refers to oil-related activity

Total assets of NOK 134bn

The bank's assets totalled NOK 134bn at 31 March 2016 compared with NOK 124bn twelve months previously.

As of end-March 2016 loans worth a total of 34.2bn (30.6bn) had been sold by SpareBank 1 SMN to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. These loans do not figure as lending in the bank's balance sheet. The comments covering lending growth do however include loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

Loans

In the 12 months to end-March total outstanding loans rose by NOK 6.6bn (11.1bn) or 5.4 per cent (10.0 per cent) to reach NOK 129.5bn (including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. Lending increased in the first quarter by NOK 2.1bn or 1.7 per cent.

Lending to corporates fell by NOK 0.5bn (growth of 5.9bn) corresponding to a decline of 1.2 per cent (growth of 13.2 per cent) in the 12 months to end-March. Overall lending to corporates totalled NOK 47.2bn as of end-March 2016. Lending to corporates increased by NOK 0.6bn or 1.2 per cent in the first quarter.

Lending to retail customers rose by NOK 7.2bn (5.6bn) to NOK 82.3bn in the 12 months to end-March, corresponding to a growth of 9.5 per cent (8.0 per cent).

Loans to retail customers accounted for 64 per cent (61 per cent) of gross lending (including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt) to customers as of end-March 2016. Lending to retail borrowers increased by NOK 1.6bn or 2.0 per cent in the first quarter.

(For distribution by sector, see note 5).

Deposits

Customer deposits rose by NOK 3.3bn (5.9bn) to reach NOK 63.9bn in the 12 months to end-March 2016. This represents a growth of 5.4 per cent (10.9 per cent). In first quarter total deposits fell by 0.2bn or 0.4 per cent.

Retail deposits rose by NOK 1.8bn (2.3bn) or 6.9 per cent (9.4 per cent) to reach NOK 28.3bn, while corporate deposits rose by NOK 1.4bn (3.7bn) or 4.2 per cent (12.0 per cent) to reach NOK 35.5bn. At the end of the first quarter, retail deposits showed no change since year-end, while corporate deposits were reduced by NOK 0.2bn or 0.7 per cent.

(For distribution by sector, see note 9).

Investment products

The overall customer portfolio of off-balance sheet investment products amounted to NOK 8.1bn at end-March 2016, an increase of 12 per cent since the first quarter of 2015. Good growth was achieved both in equity funds and active asset management. The growth was driven mainly by new sales.

Saving products, customer portfolio (NOKm)	1Q 16	1Q 15	Change
Equity funds	5,110	4,765	345
Pension products	669	642	27
Active management	2,279	1,817	462
Total	8,058	7,224	834

Insurance products

The bank's insurance portfolio showed a growth in premium volume of NOK 53m or 5 per cent in the 12 months to end-March. Non-life insurance delivered 2 per cent growth, personal insurance 10 per cent and occupational service pensions 8 per cent. Total income on the bank's insurance portfolio topped NOK 120m in 2015, and growth is also forecast for 2016.

Insurance, premium volume (NOKm)	1Q 16	1Q 15	Change
Non-life insurance	725	711	14
Personal insurance	276	251	25
Occupational pensions	199	185	14
Total	1,200	1,147	53

Retail Banking

Operating income in the first quarter of 2016 was slightly weaker than in the first quarter of 2015, totalling NOK 402m (411m), with NOK 236m in net interest income and NOK 166m in commission income. The net decline in operating income is driven by reduced lending margins. Return on capital employed in the retail banking segment was 12.9 per cent (15.5 per cent). Regulatory capital of 14.5 per cent is utilised as capital employed, corresponding to the CET1 ratio the Group intends to reach by 31 December 2016.

The lending margin in the first quarter of 2016 was 1.78 per cent (2.28 per cent), while the deposit margin was 0.24 per cent (minus 0.35 per cent) measured against three-month Nibor. Average three-month Nibor has fallen by about 50 basis points since the start of 2015.

In the 12 months to end-March retail lending and retail deposits grew by 9.2 per cent and 5.9 per cent respectively.

Lending to retail borrowers consistently carries low risk, as reflected in continued very low losses. There are no indications of higher loss or default levels in the bank's home mortgage loan portfolio. The portfolio is secured on residential property, and the trend in house prices has been satisfactory across the bank's market area as a whole.

Corporate Banking

Operating income totalled NOK 294m in the first quarter of 2016 (282m). Net interest income was NOK 243m, while other income totalled NOK 51m.

Return on equity for the corporate banking segment was 3.1 per cent for first quarter 2016 (11.9 per cent). Regulatory capital of 14.5 per cent is utilised as capital employed, corresponding to the CET1 ratio the Group intends to reach by 31 December 2016.

The lending margin was 2.57 per cent (2.75 per cent) and the deposit margin was minus 0.15 per cent (minus 0.41 per cent) in the first quarter of 2016.

Lending fell by 2.9 per cent while deposits rose by 5.1 per cent in the 12 months to end-March.

Subsidiaries

The subsidiaries posted an overall profit of NOK 44.8m (37.9m) before tax in the first quarter of 2016.

Pre-tax profit (NOKm)	1Q 16	1Q 15	Change
EiendomsMegler 1 Midt-Norge	10.0	7.8	2.2
SpareBank 1 Finans Midt-Norge	23.4	21.3	2.1
SpareBank 1 Regnskapshuset SMN	4.3	7.9	-3.6
Allegro Kapitalforvaltning	0.6	0.3	0.3
SpareBank 1 SMN Invest	9.9	0.9	9.0
Sparebank 1 Markets	3.2	-	3.2
Other companies	-6.7	-0.3	-6.4
Total	44.8	37.9	6.9

Eiendomsmegler 1 Midt-Norge leads the field in Trøndelag and in Møre and Romsdal with a very strong market share across the entire market area, in particular in Trondheim. The company's first quarter pre-tax profit of NOK 10.0m (7.8m) is satisfactory. The number of dwellings sold totalled 1,602 in the first quarter of 2016 compared with 1,658 in the same period of 2015.

SpareBank 1 Finans Midt-Norge reported a pre-tax profit of NOK 23.4m (21.3m) in the first quarter and is on a positive profit trend due to increased income, especially from car loans. At quarter-end the company managed leases and car loan agreements worth a total of NOK 4.3bn of which leases account for NOK 2.1bn and car loans for NOK 2.2bn. Growth was good, particularly in car loans. At year-end the SamSpar banks in SpareBank 1 held a stake of 27.9 per cent in SpareBank 1 Finans Midt-Norge. Sparebanken Sogn og Fjordane joined as an owner in January 2016 with a stake of 7.5 per cent, thereby further increasing the company's distribution power. After this SpareBank 1 SMN own 64.6 per cent of SpareBank 1 Finans Midt-Norge.

SpareBank 1 Regnskapshuset SMN posted a pre-tax profit of NOK 4.3m (7.9m) in the first quarter of 2016. The decline in profit is largely due to the costs of developing the company's digital platform.

SpareBank 1 SMN Regnskapshuset SMN has a growth strategy based on the acquisition of small accounting firms. The company caters to the SMB segment with a modern distribution model and a broad range of services.

Allegro Kapitalforvaltning manages portfolios for clients primarily in SpareBank 1 SMN and the SamSpar banks. These banks are the company's distribution channel. The company posted a pre-tax profit of NOK 0.6m (0.3m) in the first quarter of 2016. The company manages a portfolio worth NOK 5.6bn.

Sparebanken SMN Invest invests in shares, mainly in regional businesses. The company posted a pre-tax profit of NOK 9.9m (0.9m) in the first quarter of 2016. Value changes and realisation of losses or gains on the company's overall shareholding represents NOK 3.6m of the overall profit. The company also has owner interests in the property companies Grilstad Marina and its share of this company's profit in the first quarter of 2016 was NOK 6.3m.

SpareBank 1 Markets is a subsidiary of SpareBank 1 SMN with a stake of 73.5 per cent. SpareBank 1 Markets has its head office in Oslo and departments in Trondheim and Ålesund. It has 106 employees.

SpareBank 1 Markets is an investment firm offering a complete range of products. The company's aspires to being a profitable capital market entity able to deliver all capital market services in collaboration with its owner banks.

The company recorded a pre-tax profit of NOK 3.2m in the first quarter of 2016. Good results were achieved in share trading, corporate services and fixed-income and forex trading. Underlying operations in these areas are good, with a solid customer base. Again in this quarter, a difficult market was noted in the bond area with losses on holdings and low volumes in the issue market.

The company is the leading capital market entity in SpareBank 1 SMN's market area. SpareBank 1 Markets focuses primarily on clients where the company itself has a strong competitive position alone or together with its owner banks.

Other companies

Negative financial results in other companies are ascribable to an increased unrealised loss on an interest rate swap at the bank's property company, SpareBank 1 SMN Kvartalet.

Satisfactory funding and good liquidity

The bank has a conservative liquidity strategy. The strategy attaches importance to maintaining liquidity reserves that ensure the bank's ability to survive 12 months of ordinary operation without need of fresh external funding.

The bank has liquidity reserves of NOK 19bn and thus has the funding needed for 22 months of ordinary operation without fresh external finance.

The bank's funding sources and products are amply diversified. At quarter-end the proportion of money market funding in excess of 1 year was 84 per cent (85 per cent). The supply of funding in the market is satisfactory.

SpareBank 1 Boligkreditt is the bank's most important funding source. As of 31 March 2016 the bank had sold loans totalling NOK 33bn to SpareBank 1 Boligkreditt.

Rating

SpareBank 1 SMN has a rating of A1 (stable outlook) with Moody's and a rating of A- (stable outlook) with Fitch Ratings. The bank was upgraded by Moody's in May 2015, as were several other Norwegian banks.

Financial position

CET1 capital adequacy at 31 March 2016 was 13.6 per cent (12.3 per cent). The change over the last 12 months is ascribed to:

- An increase of NOK 1.4bn, or 13 per cent, in CET1 capital over the last 12 months as a result of profit retention
- An increase of NOK 169m, or 2 per cent, in risk weighted assets in terms of capital need over the last 12 months, mainly as a result of reduced exposure to business and industry

As from 31 December 2015 the regulatory requirement on CET1 capital is 11.0 per cent, including combined buffer requirements. The requirement will rise to 11.5 per cent as from 30 June 2016 due to the announced increase of the countercyclical buffer to 1.5 per cent.

The board of directors of SpareBank 1 SMN continually reviews the capital situation and future capital requirements.

Finanstilsynet (Norway's FSA) has communicated its expectation of a CET1 capital ratio of 14.5 per cent by 31 December 2016. This was considered by the bank's board of directors in December 2015 and a new CET1 capital adequacy target of a minimum of 14.5 per cent by 31 December 2016 was adopted.

Finanstilsynet will not set individual Pillar 2 add-ons for SpareBank 1 SMN prior to completion of the Supervisory Review and Evaluation Process (SREP) in 2016.

The board of directors of SpareBank 1 SMN expects and assumes that carrying out the bank's capital plan will ensure that the bank attains the capital requirements expected by the market and set by the authorities without the need for a stock issue.

The following are the most important measures in the group's capital plan:

- Continued sound banking operation through efficiency enhancements and prioritisation of profitable segments.
- Moderate growth in the bank's asset-intensive activities, with priority given to lending to households
- Wind-down the commercial property portfolio at BN Bank. As of end-March 2016 this portfolio had been reduced by 25 per cent since 30 June 2015

The bank's equity certificate (MING)

The book value of the bank's EC at 31 March 2016 was NOK 67.37 (61.95), and earnings per EC were NOK 1.49 (2.18).

As at 31 March 2016 the EC was priced at NOK 52.75 (NOK 59.50), and dividend of NOK 2.25 per EC had been paid in 2016 for the year 2015 (2.25).

The Price / Income ratio was 8.83 and the Price / Book ratio was 0.78 as of 31 March 2016.

Risk factors

The credit quality of the bank's loan portfolio is satisfactory, loss and default levels are low, and with the exception of oil-related businesses there are no concentrations in non-performing and problem exposures. Loans to oil-related businesses constitutes 4.3 per cent of total loans as of 31 March 2016.

The bank expects a falling rate of GDP growth as a result of declining oil investment. A weaker Norwegian krone has impacted positively on export industries, and will partially offset some effects. The bank also expects low growth in lending to mid-Norway's business sector ahead as a result of the limited level of investment.

Real wage growth will be low, but given a protracted low interest rate level the bank expects loss risk on the bank's retail banking portfolio to be low. The uncertainty relates primarily to the trend in unemployment. The bank expects unemployment to show a slight increase, but that unemployment will be relatively moderate in the bank's market areas as a whole.

Credit demand from Norwegian households has declined somewhat, but remains higher than wage growth and will be largely affected by the trend in house prices. The bank expects losses on home mortgage loans to remain low. If house prices stagnate, or fall, there is a risk that the household saving rate will quicken which will result in reduced turnover for parts of Norwegian business and industry.

The bank's results are affected directly and indirectly by fluctuations in the securities markets. The indirect effect relates above all to the bank's stake in SpareBank 1 Gruppen, where both the insurance business and fund management activities are affected by the fluctuations.

The bank is also exposed to risk related to access to external funding. This is reflected in the bank's conservative liquidity strategy (see the above section on funding and liquidity).

Outlook ahead

The directors are satisfied with underlying operations at the bank, the subsidiaries and joint ventures. The directors want to draw attention to the implemented measures in SpareBank 1 Markets which has given positive results.

There are still few signs that the challenges facing oil-related activity have fed through to the economy in the bank's markets area. However, the bank is organising its lending activity to allow for this eventuality and is exercising greater caution in lending.

The market situation continues to pose a major challenge to the bank's clients in the oil service sector. The bank's exposure in the first quarter comprises 67 ships mainly distributed across a limited number of shipping companies. In the board's view a good effort is being made to find temporary and long-term solutions for those companies facing challenges. There is still no basis for individual loss write-downs on any of the exposures, but the increased uncertainty and reduced ship values have prompted collective loss write-downs of NOK 150m in this sector. The directors expect individual and collective loss provisions in total of NOK 450-500m in 2016 due to a challenging market also going forward.

The directors continue to expect and assume that the CET1 target ratio of 14.5 per cent will be met by 31 December 2016 by means of the instruments set out in the bank's capital plan.

The challenges associated with a moderate oil price will impact on the bank's profit growth in 2016. The bank's earnings are robust and the bank's ability to withstand losses within the framework of current earnings is first-rate. The directors expect 2016 to be a satisfactory year for SpareBank 1 SMN.

Trondheim, 29. April 2016
The Board of Directors of SpareBank 1 SMN

Kjell Bjordal
(chair)

Bård Benum
(deputy chair)

Paul E. Hjelm-Hansen

Aud Skrudland

Morten Loktu

Janne Thyø Thomsen

Arnhild Holstad

Erik Gunnes
(employee rep.)

Oddny Lysberg
(employee rep.)

Finn Haugan
(Group CEO)